Chapter 74
Finance Strategies for Medium-Sized Enterprises:
FinTech as the Game Changer

Chen Liu
Trinity Western University, Canada

ABSTRACT

This chapter discusses how FinTech—technology-enabled financial solutions and services—can optimize finance strategies of medium-sized enterprises. Using a balance sheet model, the chapter integrates medium-sized companies' financing strategies, working capital management, and investment decisions and discusses FinTech solutions in each area to suggest best practice. Specifically, the chapter first discusses how crowdfunding and its different types could provide alternative financing for medium-sized enterprises. Second, FinTech solutions for online payment and transfer, invoice finance, supply chain finance, and trade finance help medium-sized enterprises optimize their working capital management. Third, blockchain technology and artificial intelligent (AI)-based decisions tools could potentially help medium-sized businesses optimize their decision-making process. This chapter also suggests future work that will allow us to better understand FinTech applications in medium-sized enterprises.

INTRODUCTION

Compared to large companies, medium-sized enterprises face more constraints in their finance strategies. First, from the perspective of financing and access to capital markets, publicly traded medium-sized companies' stocks are often less liquid compared to their large-size counterparties, as the latter, if included in market index such as the S&P 500, receive more attention and are highly traded. Also, medium-sized companies tend to have higher costs of debt financing, partially due to their size and therefore a lower degree of business diversification. Second, as they are more financially constrained, medium-sized enterprises need better working capital management. Third, medium-sized companies may have fewer investment opportunities or decision-making tools available for them.

DOI: 10.4018/978-1-7998-5351-0.ch074

This chapter discusses how FinTech (Financial Technology), that is, the use of technology in financial services, can potentially be a game changer to optimize finance strategies of medium-sized enterprises. First, the online marketplace lending (also referred to as debt crowdfunding or peer-to-peer lending) and equity crowdfunding provide alternative solutions to medium-sized enterprises' access to debt and equity capital, respectively. Second, FinTech solutions of online payment and transfer system, invoice finance, supply chain finance and trade finance have the potential to optimize the working capital management of medium-sized companies. Third, other FinTech products and processes, such as the blockchain technology and the artificial intelligent (AI)-enabled investment tools also have the potential to help medium-sized enterprises optimize their investment decisions and improve efficiency over the long term.

This chapter makes the following contributions. This chapter is the first study that examines FinTech solutions for medium-sized companies, while extant literature on FinTech focuses primarily on start-ups, small business, and large companies. It therefore provides important managerial implications and action plans on how medium-sized companies could use FinTech to optimize their access to capital markets, working capital management, and potentially investment opportunities. In addition, the balance-sheet approach of this chapter provides a systematic way for medium-sized enterprises, and companies in general, to adopt a complete set of FinTech solutions.

BACKGROUND

While many studies have examined various aspects of small and medium-sized enterprises (SMEs), only few studies focus on medium-sized enterprises (e.g. Vemic 2017a, 2017b). As a result, there is still not an agreed-on worldwide definition on what can be considered as "medium-size". For instance, the European Commission defines medium-sized companies as those with the number of employees between 50 and 249, turnover of €10 million to €50 million, and a balance sheet size of €10 million to €43 million.[1] Vemic and Stefanova (2017) define medium-sized enterprises based on the number of employees—15 to 199 employees in Australia, 250-499 in the US, 100-499 in Canada, and 50-249 in the EU. As the different definition is based on different market size of these countries, a general, but relatively loose, agreement is that medium-sized enterprises are still in the group of SMEs, but of larger size and more developed than early stage entrepreneurial firms and small business.

This chapter studies medium-sized enterprises for three reasons. First, even though previous studies on financial strategy of SMEs could be well applied to medium-sized companies directly, these medium-sized companies do differ from their small counterparties. Compared to small businesses, medium-sized enterprises have more resources (tangible and entangle assets, including human capital) and more reliable track records as they generally are in business for longer period of time. As a result, medium-sized companies have better access to finance and could potentially better take advantage of FinTech opportunities than small companies. Second, finance is a key component of every company's business activity, regardless of its size—each company has to deal with many of the same issues, such as securing long-term financing, managing working capital, and optimizing investment decisions. Compared to large companies, medium-sized enterprises often do not have the size to take advantage of the economies of scale or the economics of scope and usually lack the resources to have a dedicated team in charge of financing, investment, and working capital management (World Economic Forum, 2015). The 2015 survey of UK Department of Business, Innovation & skills indicates that employees of medium-sized enterprises consider "accessing external finance" as poorest area of business activity,